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SUBJECT: SCENESETTER FOR YOUR VISIT TO BANGLADESH

1. (SBU) We welcome your visit as an excellent opportunity to advance our bilateral economic agenda and specifically the importance of telecommunications for economic growth, modernization, and diversification. The last senior USG economic official to visit Bangladesh was A/USTR Ashley Wills, who came in August 2003 to pursue our now pending Trade and Investment Framework Agreement and to discuss the recently terminated petition to withdraw Bangladesh's GSP benefits because of EPZ labor standards (see below). Science and Technology Minister Khan has assured us that he is personally committed to making your visit a success.

2. (SBU) You will find your Bangladeshi interlocutors:

-- Eager to convince you that, contrary to a recent article in the New York Times, Bangladesh is a moderate, democratic country, with a robust economy that is open to foreign investment and new technology.

-- Focused on the South Asian Association for Regional Cooperation (SAARC) heads of government summit scheduled for February 6-7, a massive logistical undertaking for the BDG. Official pre-summit meetings begin February 1.

-- Promoting Bangladesh as a cheaper IT alternative to India, provided obvious telecommunication bottlenecks are overcome.

Country Overview and Bilateral Backdrop

3. (SBU) Bangladesh is a predominantly Muslim country of 140 million people living in an area slightly smaller than Iowa. Since independence from Pakistan in 1971, it has made significant socio-economic advances, including almost halving its mortality and population growth rates and becoming nearly self-sufficient in rice production. The take-off of the textile sector in the 1980s employed, and empowered, several million women. Free of major sectarian or ethnic divides, Bangladesh has a long, if sometimes frayed, tradition of religious and political tolerance. It is the world's leading contributor to UN peacekeeping operations, with more than 8,000 troops deployed to 12 countries.

4. (SBU) Since the return of democracy in 1991, Bangladesh has had three relatively free and fair national elections. However, the enmity between the leaders of the two major political parties, the Awami League (AL) and the ruling Bangladesh Nationalist Party (BNP), degrades democratic institutions and practices. Corruption is rampant, law and order is poor, governance is weak, due process is unreliable, and infrastructure is grossly inadequate.

5. (SBU) U.S.-Bangladeshi relations are traditionally warm, with even Islamists noting the leadership role USG aid played in rebuilding Bangladesh after its devastating war of independence. However, virtually all Bangladeshis oppose U.S. actions in Iraq; many view the war on terror as anti-Muslim. More positively, in 2004, the BDG ended a 13-year bilateral impasse by passing legislation to extend international labor standards to the EPZ's. It also launched a major, continuing effort to combat trafficking in persons, earning USG reassessment of its performance from sanction-threatening Tier III to Tier II watch list. USG objectives in Bangladesh include boosting Bangladesh's counter-terrorism capabilities and performance, promoting credible elections in 2007, improving the deteriorating human rights situation (including attacks on religious minorities and more than 100 extra-judicial killings by police in the past seven months), and supporting economic reform and export diversification.

6. (SBU) The U.S. is Bangladesh's biggest trading partner, taking 35 percent of its garment exports, and, at \$1.4 billion, its biggest foreign investors. A record 80 companies are set to participate in the 2005 U.S. Trade Show sponsored by the Bangladesh American Chamber of Commerce and the Embassy. Also, in partnership with the U.S. and Bangladeshi private sectors and the BDG, the Embassy is organizing a Bangladesh road show this spring to Baltimore, Houston, and St. Louis to promote bilateral trade and investment.

## Political Overview

17. (SBU) The BNP ruling coalition includes two Islamist parties, one of which is openly extremist and anti-Western. BDG decision-making is centralized in the hands of Prime Minister Khaleda Zia, her son and heir apparent, Tariq, and a handful of confidants. They are increasingly focused on the general election expected in early 2007 and in becoming the first government in Bangladesh to win re-election. The opposition Awami League has failed to generate popular momentum for its one-point agenda of forcing the BNP, which has a huge parliamentary majority, to hold early elections. While the Awami League and its leftist partners might try to generate demonstrations in the run-up to the SAARC summit to embarrass the BDG, a long holiday season ending this week has put a damper on political activity.

18. (SBU) In 2004, there were several high-profile incidents of security concern, including: the seizure of a huge illicit arms shipment at Chittagong port, a grenade attack that seriously injured the British High Commissioner in the provincial city of Sylhet, and the August 21 grenade assault at an Awami League rally that killed 20, injured about two hundred, and narrowly missed killing AL President Sheikh Hasina. The BDG's inability or unwillingness to solve such incidents fuels speculation that the perpetrators, Islamist or otherwise, enjoy political protection.

## Economic Trends

19. (SBU) The BDG continues to make steady if gradual macro-economic progress. It has met the budget and financial reform targets of its IMF structural reform program, and in June it received the second tranche of its support fund. Privatization, however, remains stalled. A new Anti-Corruption Commission, created last year under donor pressure, has gotten off to a shaky start with serious doubts about its independence and capabilities.

110. (SBU) Bangladesh remains a poor country with per capita annual income under \$400. It is beset by periodic natural disasters; last summer's exceptional flooding submerged three-quarters of the country. The export economy is over-dependent on textiles, and economic growth rates in recent years -- of 5 to 7 percent -- are respectable but insufficient for eroding poverty levels.

111. (SBU) That said, there are bright spots. Parts of the textile industry like knitwear may be well placed to compete in the post-MFA era, and several infrastructure-related sectors like telecommunications have the potential for strong growth, in part because they are starting from such a low base. In numerical terms, there is a large middle class that in Dhaka is fueling a boom in affluent shopping centers, restaurants, residential properties, and high-end automobile dealers.

112. (SBU) The Bangladeshi business community recognizes that Bangladesh's telecom constraints are severe and hinder IT development, including Bangladeshi aspirations to compete with India for call center contracts. Other handicaps for Bangladesh are its generally inferior standards of education and English-language skills.

## Key Points

113. (SBU) BDG officials assert that Bangladesh is open for investment, and that concerns about corruption, instability, governance, and extremist Islamist influence are misplaced or exaggerated by foreign (usually means Indian) media reporting. We stress with Bangladeshis:

-- We want Bangladesh to succeed, economically and politically.

-- Corruption is a big tax on growth, impedes investment, and undermines confidence in economic decision-making. The issue is not whether Bangladesh is more or less corrupt than another country, but how corruption can be visibly and effectively reduced.

-- Rule of law, including contract sanctity and the reliability of due process, is also important. In that context, human rights, and the behavior of government officials like police, are also critical because they shape perceptions of a country's potential as a productive partner.

## Watch Out For

114. (SBU) Bangladeshis are apprehensive about the future of their textile industry in a quota-free world. Many insist the USG, for political or humanitarian reasons, should grant

Bangladeshi garments duty-free access to the U.S. market. We note this is a sensitive political issue in the U.S., and that Bangladesh should focus instead on export diversification (e.g., the successful shrimp industry). Moreover, we suggest, Bangladeshi exporters in general would benefit greatly from reduced corruption and high infrastructure costs.

THOMAS